

The Economic Crunch and Rising Defense Expenditures of Pakistan: Issues and Problems

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Pakistan's military top brass had never got so susceptible to such wide criticism from masses. A myriad of reasons can be attributed to this deluge of critique write-ups. This study, contrary to the popular trends, seeks and discusses some rationale behind the defense budgetary allocations of Pakistan. The study aims to analyze the Gross Domestic Product (GDP) along with threat perceptions of Pakistan with a view to assess the defense expenditure and work out rational recommendations. The premise of research is to sketch our new paradigms of internal threats and the resulting sizeable deployments of military resources in tribal unrest areas. Its approach consists of mixed methodology, mostly relying on secondary data, obtained by some numerical crunching of military statistics, financial journals, handouts, periodicals and economic reviews. The details of internal threat perceptions and military capability to cope with it are directed from qualitative analysis, observations and discussions with academicians and intellectuals. It is further supplemented with the reasons underlying the fallout of insurgency in Afghanistan which on the one hand proved to be a stimulus of tribal uprising in Pakistan and on the other, caused a massive reshuffle in pecking order of American designs of regional manipulation. It concludes with recommendations of self-sustained

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armed forces as "the best way to avoid war is to be prepared for it". Besides the threats must be offset with development of agriculture sector, construction of directly needed water reservoirs and technology transfer on priority basis to boost GDP and per capita income.

Introduction:

The post 9/11 events forced Pakistan to deploy sizeable force on western borders as it became inescapable due to border contiguity with Afghanistan. The gradual increase in Defense Budget has therefore been a compulsion. The political argument that defense expenditures may stimulate growth and, vice versa, that defense cutbacks may have negative economic implications has been particularly popular in the US and may be partly explained by the strong influence of the military-industrial complex in political decisions.¹ Our eastern neighbor is continuously inflating her Defense budget on one pretext or the other. Pakistan has already lost its Eastern wing due to Indian planning.

Coupled with the external threats, Pakistan is facing continuous internal threats as well. Hence, a greater concern for planners of our country is that national security is no longer a clear cut, well defined, identifiable and quantifiable factor. Thus it is now a compulsion to maintain the Armed forces in best possible way. Defense allocations therefore cannot be put on the back burner.

Since Gross Domestic Production serves as an indicator of the national economy, therefore its quantum and growth rate should be understood so as to realize the financial allocations. The paper will also highlight those sectors of the Armed forces, which are contributing to the national economy. It was possible to break up the net effect in two components. The direct effect – which can be interpreted as

externalities of military activities on the civil sector of the economy and the indirect effect – through crowding-out of investment in the civil sector, was quite substantial.²

2. Threat Perceptions

2.1 External Threats

2.1.1 Geo strategic Location

History tells us that the enemies have always waged a war with one aim generally limited in scope but achievable³, reason being Pakistan's problem ever since 1947 have been complex, varied and multi directional.⁴ Its geo strategic location in an area of crisis gives it, unparalleled geographical preeminence on the one hand and simultaneously exposes it to dangerous crosscurrents of international power politics on the other. This peculiar case of regional power and politics jeopardize the situation as in words of Max Weber "the probability that one actor within a social relationship will be in position to carry out his own despite resistance."⁵

For defense planners, Pakistan's existing security environment presents a daunting challenge. Consider, for the moment, an intransigent, expansionist, belligerent and nuclear India to the East, an Islamic fundamentalist Shiite Iran in the west, a strife torn Afghanistan in the North West and the strategic Indian Ocean to the South. All these geographical realities combine and produce a rich blend of anomalous geopolitical, ideological and psychological strains and fallout on Pakistan's national security. Besides its industrial heartland, Pakistan's important communication centers and towns lie perilously close to the border with India. On the West, Pakistan has a 2252 Km border with Afghanistan. A narrow limb of Afghan territory called Wakhan separates

it from Tajikistan. In the North East, Pakistan has a common border of 595 Km with China.

Pakistan's Nuclear Program:

India conducted their first nuclear test in 1974. This was a real worry for Pakistan in the aftermath of strained relations between the two neighbors. Such imbalance has potential danger to undermine some prevailing rules to abuse political pressure.⁶ It was during that time Pakistan started the underground work on development of the nuclear capability. This work demanded the sizeable amount of capital in addition to the efforts of our scientists. The country remained under continuous pressure from USA and the West. Famous Pressler Amendment served as a lethal weapon against Pakistan as it resulted in the multidirectional sanctions against Pakistan.

2.1.2 Border Escalation 2001-2002

Both nations have a history of conflicts. In 1947 when the British were leaving, there were many injustices in partition of Punjab and Bengal. The case of Kashmir was the worst.⁸

2.1.3 Fall out of Insurgency in Afghanistan

As a result of long war against the former Soviet Union in Afghanistan about 3.5 million refugees entered Pakistan. These refugees also indulged in the terrorist activities. The Armed forces had to brace these attacks due to their increased deployment on "internal security" related tasks. India used the opportunity to their best advantage. The pro Indian Government in Afghanistan allowed Indians to establish seven consulates in Afghanistan along with Pak Afghan border. They are continuously busy in anti-Pakistan activities. Pakistan had to deploy large number of troops on the western border to contain Taliban's cross

border activities. Deployment of forces on the western border has now entered in the fourth year. Army has suffered huge losses of men and material. Pakistan is under immense pressure from the United States and NATO forces to do more for stopping the militants' alleged border crossing. The whole exercise needs tremendous resources.

2.2 Internal Threats

2.2.1 Religious Extremism and Violence

Pakistani society is riddled with sectarian hatred, terrorism and mutual disharmony and discord.⁹ Because of a small extremist religious minority that has kept the nation hostage since the trouble in Afghanistan. Religious violence and extremism has now become a concomitant of our culture and value system. Resultantly, a large number of religious groups have setup militant *Jihad* outlets all over the country. Situation in tribal areas specially in North and South Waziristan is worse. They have a direct link with the extremist elements. Foreign militants are given refuge on the pretext of *Jihad*. It is now a compulsion on Pakistan to fight out the extremism. This also involves committing the troops and resources, which entails heavy expenditure.

2.2.2 National Forces

Pakistan comprises a diverse and extremely contrasting cultural, ethnic, geographical and linguistic mix.¹⁰ National defense is, therefore extremely critical to the existence. For any meaningful progress the people must be knitted closely in a unified bond towards a common purpose, course and goal. There has to be an active participation of all provinces and people in national affairs. However, certain politicians due to their hidden motives have poisoned the minds of youth that their rights are being undermined.

2.2.3 Effects of Alliance against War on Terrorism

After the 9/11 Terrorist attack, United States decided to attack Afghanistan in order to hunt the suspected Al-Qaida militants and their supporters i.e. Talibans. India offered unconditional support for the United States. It was however, not accepted as the support/assistance from Pakistan was required due to border contiguity. On Pakistan's willing cooperation and material assistance for war on terrorism, India suffered a set back. Consequently, India fully utilized their consulates established in Afghanistan. They aided the nationalist forces in Balochistan, which led to an armed insurgency. Their help / assistance has been considerably reduced due to the counter measures taken by Pakistan Armed Forces. A strain on the Armed Forces is an indirect strain on national economy.

3. Pakistan Economy Since 2000:

Pakistan had to struggle in the aftermath of post nuclear sanctions. A critical decision to join the Global War against terrorism was taken. Consequently the post-nuclear sanctions were gradually lifted. Economic assistance was also provided in the form of military equipment.

However, the country had to brace the biggest natural disaster of the history, Earthquake of October 2005. But in spite of all the odds, GDP grew at the following rates.¹¹

Serial	Financial Year	GDP Growth (%)
a.	2000-01	2.0
b.	2001-02	3.1
c.	2002-03	4.7
d.	2003-04	7.5
e.	2004-05	8.6
f.	2005-06	6.6

4. Gross Domestic Product (GDP):

An economic indicator that measures the value of all goods and services produced by the economy within its boundaries and is the nation's broadest gauge of economic health.

There are many measures of an economy's performance. The best available, however are based on the economy's annual total output of goods and services or, as it is sometimes called its aggregate output.¹² An economy's aggregate output is reassured by its Gross Domestic Product (GDP): the total market value of all final goods and services produced within a country in one year. GDP includes goods and services produced by native and foreign supplied sources within a particular nation's geographical boundaries. It appears that there is a significant difference between low and middle-income groups with respect to the growth effects of military expenditure.¹³

GDP Equation:

C + Ig + G + Xn. Thus four categories of expenditures – consumption expenditures (C), gross private investment (Ig), government purchases (G), and net exports (Xn) – include all possible types of spending. Added together, they measure the market value of an year's out put or in other words, the GDP. That is ...¹⁴ **C + Ig + G + Xn = GDP**

Defense Industries:

Apart from the two main sectors which contribute to the GDP i.e. commodity producing sector and services sector,¹⁵ there are four organizations functioning under the overall supervision of Army i.e. Army Welfare Trust, Fauji Foundation, National Logistic Cell (NLC) and Frontier Works Organization (FWO). NLC and FWO have a variety of units. Apart from contributing to the national development and

exchequer through various taxes, these units are providing jobs to the retired army personnel as well as civilians.¹⁶

Details of units falling under each organization are as under:

- **Army Welfare Trust (AWT):**

Established in 1971. Major contributions of the trust to the Industrial and Banking field are in army welfare industries and Askari Cement and Askari Banking and leasing programs.¹⁷

- **Fauji Foundation:**

This gigantic organization, established under the charity Endowment Act, has contributed significantly to the national development. Major contributions are in industrial sector, fauji fertilizer limited plants, health sector, education and technical training.

- **National Logistic Cell (NLC)**

The organization was established in 1977 and is mainly employed by serving officers. It has given employment to 6500 civilians including the ex-servicemen. It is dynamic organization, holding a transport fleet including long trailers, covered cabin vehicles, vehicle carriers and tankers. Being unique in its character NLC is based on self finance and has its own backup support system, to keep the transport fleet roadworthy.

Indigenous Defense Production:

A large number of civil workers and technicians are working in the Defense Production units. These production units on one hand are producing the defense equipment/ammunition for forces, while contributing to the country's exports on the other hand. The exports are managed through Defense export and Promotion Organization (DEPO).

Pakistan Ordnance Factories:

This industrial Complex comprises 14 factories of diversified nature dealing with small arms, weaponry, explosives, ammunition and clothing. The complex has emerged as one of the largest exporters of manufactured engineering goods and has a definite room for expansion as well as alliance with foreign investors.¹⁸

5. National Budget:

The federal budget for fiscal year 2005-06 (July-June) is PRs. 1.1 trn (US \$ 18.4 bn.), following an average rise of 10% between 2000-2001 and 2004-2005. It includes measures to encourage consumption as well as targeted investment.¹⁹

Budget outlay: State of last four years is as under ...²⁰

Rupees in Billion

Year	2002-03	2003-04	2004-05	2005-06	% change
Total Revenue	720.8	805.8	900.0	1095.6	22.4
Tax Revenue	555.8	617.9	659.4	805.6	22.2
Non Tax Reven.	165.0	187.9	248.4	290.3	19.3
Note: Non-tax revenue consists of receipts from civil administration and defense, profit of SBP, PSE and user charges of services etc.					
Total Exp.	898.2	940.4	1117.9	1422.9	206.8
Current Exp.	791.7	763.1	943.1	1097.9	16.7
Dev. Expenditure	129.2	161.0	227.8	328.7	41.7

Allocation for Principle Heads:

Rupees in Billion (Current Expenditure)

Year	2002-03	2003-04	2004-05	2005-06	% change
Federal	579.9	582.4	688.6	782.1	13.9
Interest	207.2	196.3	210.2	241.2	14.7
Defense	159.9	180.4	211.7	241.1	12.5
Civil Govt.	67.4	75.5	81.4	103.1	26.7

All others	145.4	130.2	185.3	157.2	-15.2
Provincial	191.9	180.7	254.5	315.8	24.1
Dev. Exp.	129.2	161.0	227.8	326.7	41.7

5.1 Defense Budget

Evidence has been presented to show that such spending leads to the crowding-out effect because it raises interest rates and inflation, and it displaces an equal amount of national resources that would otherwise be used elsewhere.²¹

GDP Percentage:

From 1958 until 1973, the published defense budget accounted for between 50 and 60 percent of total government expenditures.

After that time, the proportions were much lower, falling to 40 and later 30 percent levels and ranging between 5 and 6 percent of GDP. Detail of some selected periods is given as under:²²

Period	Defense Expenditure (% of GDP)
1980-81	5.5
1984-85	6.7
1989-90	6.9
1994-95	5.6
1999-2000	4.0
2000-03	3.3
2003-04	3.3
2004-05	3.2
2005-06	3.1

Comparison of Defense Expenditure with other Sectors:

The comparison as % of GDP is given as under:-²³

Period	Current Expenditure	Developmental Expenditure	Interest Payment	Defense
1980-81	13.6	9.3	2.1	5.5
1984-85	17.7	7.7	3.5	6.7
1989-90	19.3	6.5	5.5	6.9
1994-95	18.4	4.4	5.2	5.6
1999-2000	16.5	2.4	6.9	4.0

2000-03	16.4	2.2	4.9	3.3
2003-04	13.6	3.1	4.0	3.3
2004-05	14.3	3.5	3.9	3.2
2005-06	13.4	4.2	3.1	3.1

6. Analysis:

Threat Perceptions:

- **Geostrategic Location:** Pakistan's geostrategic location itself is a threat, as has been experienced in the past. Main objective of former Soviet Union was to reach to the warm waters i.e. Arabian Sea through Pakistan.
- **Threat of Nuclear Assets:** Nuclear Pakistan is a thorn in the eyes of Super as well as Regional powers. Hence, threat to these assets is real.
- **Pakistan Role in War Against Terrorism:** In spite of the fact that Pakistan has suffered heavy losses in losing human and material resources, the United States and NATO allies are continuously pressurizing Pakistan to do more than what is already been done.
- **Religious Extremism:** It has proved to be the most serious threat and an impediment in the way of progress and modernization!
- **Nationalist Forces:** This element is being fully exploited by those political parties, which have no strength at the national level. They have also got the Indian patronization.
- **Donors' Pressure:** International donors are continuously pressing Pakistan to reduce the strength of Armed Forces. There has been a considerable cut in terms of manpower in the Army. However, minimum credible deterrence has to be maintained at all costs.
- **Growth:** In spite of political instability, the three wars and the disastrous earthquake of 2005, the economy of Pakistan has been

progressing at a steady pace. It has never happened in the history of Pakistan that growth went towards negative side.

- Agriculture Sector vs. Manufacturing Sector: In spite of the fact that Pakistan economy is agriculture based, however, the share of manufacturing sector has shown larger growth as compared with the growth of Major and Minor crops.
- Budget: There has been a considerable decrease in the interest payments as percentage of GDP.

Defense expenditure has also shown a gradual decrease in terms of percentage of GDP but its size is continuously on the increase. Size of the "development budget" is being continuously growing.

Effects of Defense Expenditure on Economy:

No one can deny the fact that expenditure on defense affects the economy in a negative way. Seeing the defense allocations since the creation of Pakistan, one can very easily visualize, that had the allocations for defense been reduced to a sizeable proportion, the development of the country would have been of much different shape than what it is at present.

Bulk of the defense budget has always been spent for purchase of ultra expensive equipment and armaments. The payment has always been in the foreign exchange. It may be conveniently concluded that defense budget had a negative effect on the foreign exchange reserves of Pakistan.

Gradual decrease in the size of defense budget in comparison with other section has resulted in the form of increased allocation for development. Proposed allocation for public Development Program for financial year 2006-07 has been over 400 billion rupees.

Role of Defense Forces:

In spite of the rising criticism on the role of Armed Forces, military or civil governments have never neglected the allocation for defense. Brief analysis of the role of Armed Forces is as under:

- Continued Vigilance: Armed Forces have always maintained continuous vigilance at land, in the air and on water.
- Internal Security & Elections: There has been an upscale employment of Armed Forces owing to internal security ever-since the creation of Pakistan. Likewise, the Army has been employed on election duties at all levels.
- Nation Building Tasks: Troops have remained committed to the nation building tasks such as desalting, survey of school and census development etc.
- Earth Quake Relief and Rehabilitation: Armed Forces troops as well as machinery were employed at a massive scale during the relief and rehabilitation of earthquake of October, 2005. They have earned an international recognition and appreciation regarding this.
- Contribution Towards National Economy: Industrial units working under the Armed Forces are contributing towards an overall growth of the country in terms of production as well as revenue in the form of taxes.
- Contribution in UN Peace Keeping Operation: Pak Army is contributing in these operations in a big way. This on the one hand is earning a good name for the country, but also a source of foreign exchange.

7. Recommendations:

Having analyzed the threat perceptions, economic growth and role/contribution of Armed Forces, the following recommendations can be made:

- **Self-Sustaining Armed Forces:** Armed Forces will have to be increasingly involved in nation building tasks by undertaking development projects in the sphere of human and physical infrastructure development. Construction / Communication projects, health care, education, environmental control, power generation are just a few fields where the Armed Forces could contribute usefully. Armed Forces institution like AWT, Fauji Foundation, Shaheen Foundation and Bahria Foundation etc. must expand and upgrade their operations and compete with national and foreign firms for development projects within the country.
- **New Threat Paradigm:** In the light of factors discussed in the paper Pakistan must redefine its threat paradigm currently based on external military threat. Internal factors and non-military threats should be made central to our national security. Hence new threat paradigm should be drawn up with the basic fundamental in mind that threat of Pakistan's integrity lies more on the Internal and not External domain, because more unstable a country is internally, the easier it is for outsiders to destabilize it.
- **Construction of Water Reservoirs:** Consensus be achieved among the provinces for early construction of the major water reservoirs, before it is too late.
- **Peace Process:** The ongoing peace process with India should not be allowed to derail. Smaller defense issues like withdrawal of forces

from Siachin should be resolved at an earlier opportunity as it is a drain on the economy of both countries.

- **Political Stability:** Steps should be taken to ensure political stability in the country as a stable economy ensures development of a country.

8. Conclusion:

Besides military expenditure, Pakistan's interest payment on external debt grew very fast in the 1990. A more fundamental problem was that Pakistan's foreign debt and other foreign exchange obligations had become very large and weight of short-term liabilities was growing. Between 1990 and 1997 Pakistan's foreign exchange (foreign currency deposits) grew by US \$ 12 billion to US \$ 32 billion. Terms of Pakistan's external debt were gradually being hardened, as the availability of concessional assistance got more limited. Thanks to Pakistan's support to US led anti terrorism coalition in aftermath of September 11 incidents as it enabled Pakistan to rescheduling of big chunk of debt. Foreign exchange reserves have now crossed US \$ 13.5 billion. There is hence a definite need to make concrete efforts to pass on the fruits of economic gains to the masses, as this will add to the real growth in GDP. Defense needs cannot be ignored as the "best way to avoid war is to be prepared for war".

End Notes:

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